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**A Commentary on  
The Preliminary Report of the  
Royal Commission on the  
Economic Union and  
Development Prospects  
for Canada**

**CHALLENGES AND CHOICES**



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**July 24, 1984  
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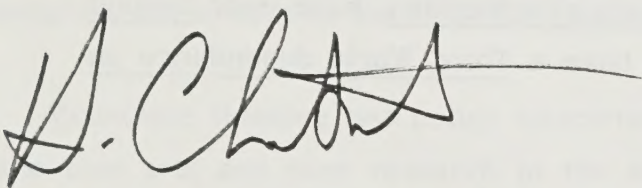
## Introduction

In December 1983 the author submitted An Economic Impact Assessment of the Fine Arts to the Royal Commission on the Economic Union and Development Prospects for Canada. The submission presented a professional assessment of an economic sector which has grown dramatically in the last decade and a half and which promises to play an increasingly important role in growth and employment in the economy of tomorrow.

Given the range and complexity of issues reviewed in the preliminary report of the Commission, entitled Challenges and Choices, the author can not hope to do justice to the heroic efforts of the Commission and its staff. Accordingly, it is with some hesitation that he takes this opportunity to comment on the preliminary report.

The commentary will follow the structure of Challenges and Choices excluding introductory sections. The author will amplify on selected themes presented in the report and suggest alternative themes considered critically important for the economic union and development prospects for Canada. Opinions expressed are those of the author and do not necessarily reflect the policies or opinions of the Canada Council.

In spite of its inherent limitations, it is hoped that this commentary will assist the Commission and its staff in preparation of their final report which promises to provide Canadians with a much needed blueprint for their collective economic future. In this regard the author is willing to appear before the Commission and/or respond to questions from staff at their convenience.

A handwritten signature in black ink, appearing to read 'H. Chartrand', with a long horizontal line extending to the right.

Harry Chartrand  
Ottawa, Canada  
July 24, 1984



## BASIC CHALLENGES AND BASIC CHOICES

### Refurbishing Our Intellectual Capital

In its preliminary report the Commission suggests that the basic challenge confronting Canadians is how to attain self-reliance, a more harmonious working together, equal opportunity, predictability in economic life and excellence. To the author, however, there is another basic challenge - to refurbish an antiquated intellectual capital base to effectively deal with the new challenges and choices confronting the Canadian economy.

Many futurists suggest that the world of today stands at the dawn of a new Renaissance. However, there is a corollary: the world stands at the end of a dark age, particularly for women and "visible minorities". Society is coming to recognize it has answers to the wrong questions and is only beginning to articulate the right ones. Two examples demonstrate the challenge.

First, with respect to economic thinking, certain perceptions from the past continue to cloud our vision of the future. For example, Canadians

... must unshackle themselves from the notion that goods alone constitute wealth whereas services are unproductive and ephemeral. At the same time, they should act on Smith's understanding that the wealth of a nation depends on the skills, dexterity and knowledge of its people (Ginzberg, Votja, 1981, 48 - 55).

Second, with respect to geo-political thinking, Canadians generally perceive Canada as a poor cousin among First World nations. Accordingly we adopt economic policies appropriate to a First World nation. The author believes, however, that Canada is part of an emerging "Fourth World" which includes Australia and New Zealand. Fourth World countries have small populations combined with First World technology and levels of education, have near Second World state involvement in the economy and have a Third World dependence on natural resources.

Fourth World countries have certain inherent comparative advantages. For example, our small population can permit systemic innovation of new technologies, e.g., in communications and urban development, not possible in First World countries. By contrast, in the United States certain "social right-off theorists" believe that the U.S. urban northeast should simply be abandoned in favour of an emerging Sunbelt civilization, because of the enormous costs required to upgrade its run-down urban infrastructure. Canada, therefore, requires a re-assessment of economic policies and comparative advantages in systemic innovation - both technological and social - consonant with its Fourth World status.



## JOBS AND COSTS

### Dual Tracking the Future Economy

In its preliminary report the Commission suggests that the challenge with respect to jobs and costs is how to attain full employment with stable costs and prices. While accepting the challenge as formulated by the Commission, the author suggests there is an alternative choice.

Dr. Stuart L. Smith of the Science Council of Canada suggests that the emerging economy will have two distinct sectors. The first is what he calls the wealth sector characterized by high wages, capital-intensive technologies, and international competitiveness. The second is the employment sector characterized by low wages, labour-intensive technologies, and provision of human services by Canadians to Canadians.

The author proposes an alternative formulation of this "dual track" model. Specifically, the emerging economy will be characterized by two leading edge, research and development sectors: the "High Tech" and the "High Cult" sectors. Economic thought and policy concerning the High Tech sector is relatively well developed. The sector currently receives enormous tax and other benefits from federal, provincial and local governments. Without these tax and other benefits most Canadian firms would be unable to undertake the costly and inherently risky research and development required to develop the new products and processes that increasingly dominate the economy. Technological transfer from the High Tech to other sectors will be important in generating stable costs and prices for, and thereby the competitiveness of, Canadian goods and services in world markets (The Economist, June 16, 1984, 12). High capital costs, however, limit the direct employment impact of the High Tech sector.

Economic thinking and policy concerning the High Cult sector, which includes the fine arts and pure research in the social and management sciences and the humanities, is significantly less developed. Recent research does provide, however, some evidence concerning the "fine arts" segment of the Canadian arts industry. The arts industry includes advertising, broadcasting, motion pictures, the performing and visual arts, publishing and sound and video recording. A Census of Manufactures comparison of the 20 largest Canadian manufacturing industries and the arts industry in 1981 reveals that the arts industry was the 11th largest with revenue of \$7.7 billion or 2.4% of GNP. Between 1977 and 1981 arts industry revenue grew 64% from \$4.7 billion to \$7.7 billion (Chartrand, 1984).



Four pieces of empirical evidence about the arts have now been established. First, the fine arts provide research and development for the commercial arts industry. This contention is supported by the fact that a review of 16 major industries demonstrated that only entertainment had no reported R&D expenditure as per cent of income (Business Week, March 21, 1984, 236-286). In addition, the fine arts also feed the design process in manufacturing and other industries. More will be said of the design implications of the High Cult sector (see below, "Trade and Industrial Development" and "Education and Training").

Second, there are two distinct arts-related employment populations. Together they include 414,000 workers or 4% of the Canadian labour force in 1981, nearly equal to employment in agriculture or the federal government including Crown corporations. The first group is the arts labour force made up of workers who use arts-related skills in their day-to-day jobs such as artists and arts technicians including curators, librarians and camerapersons. Between 1971 and 1981 the arts labour force increased 74% from 156,455 to 272,640 compared to a 39% increase in the total labour force.

The second group is the arts industry labour force made up of workers employed in advertising, publishing, motion pictures, live staged events, fine arts schools, libraries, etc. Only 35% of the arts labour force is employed in the arts industry, the rest in industries from mining to banking. Between 1971 and 1981 the arts industry labour force increased 58% from 150,080 to 236,610. Of this total 52% were men and 48% were women compared with 60% men and 40% women in the total labour force. Artists made up 24% of the arts industry labour force, arts technicians 18%, arts administrators 8%, and other support personnel, 50%.

Third, the employment efficiency of the fine arts, dollar for dollar, is six times higher than in manufacturing. There are other significant characteristics of artistic employment. Firstly, artistic jobs provide "meaningful employment" with a high degree of job satisfaction and strong career commitment. Secondly, employment in other sectors of the economy depends on depreciating physical capital. Employment in the arts, on the other hand, depends on "appreciation" of human capital and the increasing excellence of Canadian artistic production. Thirdly, professional artists are highly educated. They are an important part of Canada's stock of highly qualified personpower and contribute to the evolution of a Canadian cultural heritage to be shared by generations to come.



Fourth, the fine arts sector currently receives declining real support from the federal government and relative to recreation, declining support from provincial and local governments (Chartrand, 1984). Unlike other sectors of the economy, in the High Cult sector federal policies have been focused on production of final products, not research and development.

The High Cult and High Tech sectors offer a dual track policy combination required to meet the challenge of full employment and stable prices. Both generate research and development which is transferred to other sectors of the economy and materially affect their productivity and development. Both are information-intensive. Both utilize highly qualified personpower. Both contribute to the pride and prestige of Canadians and of Canadian goods and services in world markets.

But while High Tech is capital-intensive, High Cult is labour-intensive. While High Tech provides the new "hardware", High Cult provides the new "software" of the future economy. While High Tech is characterized by high wages, High Cult is characterized by low wages. While High Tech maintains stable costs and prices by increasing productivity, it tends to depress employment. While High Cult maintains high levels of employment it tends to provide relatively low wages, but thereby it contributes to cost and price stability. A dual track policy balance between High Tech and High Cult can contribute towards meeting the challenge of full employment with cost and price stability.



## TRADE AND INDUSTRIAL DEVELOPMENT

### Demographics of Future Trade and Industrial Development

In its preliminary report the Commission suggests that the challenge with respect to trade and industrial development is how to secure growing markets and balanced industrial development. While accepting the challenge as formulated by the Commission, the author suggests an alternative choice.

In demographic terms world markets can be divided into two distinct parts. The first is the First World market increasingly dominated by "Yuppies", i.e., young, upwardly mobile professionals. The second is the Third World market increasingly dominated by "Puppies", i.e., poor, upwardly mobile peoples. At the dawn of the post-war, post-colonial period, the Third World attracted the attention of Western producers and politicians as a source of raw materials, or for philanthropic and aid reasons. Since that time, however, Third World countries have generated increasing demand for basic goods and services including infrastructure. Initially this demand provided Canadian producers of relatively unsophisticated goods and services with certain trade opportunities, particularly through "tied-aid" arrangements. In the longer term, however, developing nations have increasingly substituted locally produced goods for imported Canadian ones.

In the '60s and '70s, low wage Third World labour provided these nations with a significant comparative advantage. Many began to compete directly with Canadian producers in both foreign and domestic markets. Canadian producers responded either by (i) shifting production to low wage "off-shore" locations; (ii) switching to capital-intensive High Tech production; and/or (iii) swaying the federal government to maintain or establish tariff and non-tariff barriers. The first two alternatives promote cost and price stability for Canadian consumers but also declining Canadian employment opportunities. The third alternative is not generally accepted as a long-term solution. Canadian producers have, however, longer-term market opportunities for the technological transfer of "know how" to Third World producers (see below, "Looking Forward").

The First World Yuppie market is increasingly attracting attention of both producers and politicians in the United States (Business Week, July 2, 1984, 52-62). In essence, the First World market is characterized by demand for high quality, sophisticated goods and services. In this market European producers have an historic comparative advantage. In this upscale market the Canadian High Cult sector has a significant role to play in securing growing long-term markets for Canadian producers (see below, "Education and Training").



## PRODUCTIVITY

### From Threat to Promise

In its preliminary report the Commission suggests that the challenge of productivity is how to attain world-class technology, improved industrial relations and entrepreneurial and industrial innovation. While accepting the Commission's formulation of the challenge, the author suggests some alternative choices.

Economic productivity is generally defined as output per worker. Two factors increase productivity. The first is the quality and quantity of capital equipment. The second is the skill and motivation of the worker. The cost to a First World economy of insufficient management and worker motivation has been estimated at between 20 to 40 per cent of net national product (Leibenstein, 1981). This dwarfs the costs associated with monopoly, the traditional concern of economics.

One major obstacle to improved worker motivation is a real and historically justified fear of technological change.

Machinery has done the work. Machinery has left them in rags and without any wages at all. Machinery has crowded them in cellars, has immured them in prisons worse than Parisian Bastilles, has forced them from their country to seek in other lands the bread denied them here. I look upon all improvements which lessen the demand for human labour as the deadliest curse that could possibly fall on the head of our working classes, and I hold to be the duty of every (worker) - the highest duty - to obstruct by all legal means the introduction of the scourge into any branch of his trade (Sidney & Beatrice Webb, 1920, 393-394).

Without doubt some form of government social change incentives will be required to ameliorate worker fear (see below, "Social Support"). In addition, however, private sector shareholders and managers must develop practices that convince labour that technological change is not a threat to the few, but a promise for all.

The fact that the Japanese businessmen, as in the Meiji restoration, put community welfare and other national interests above simple maximization of profits, probably - and rather paradoxically - led on the whole to the kinds of practices that were beneficial in terms of both growth rates and ... profits (Kahn, 1971, 79).

Beyond labour's positive acceptance of and adaptation to technological change, there remain two critical questions. First is how to create a work environment in which innovation can be fostered and promoted? Second is how to encourage entrepreneurial behaviour in large firms?

With respect to creating a working environment conducive to innovation, art in the workplace has been found to increase motivation and promote innovation.

employees are more likely to achieve excellence in an environment of excellence. A good working environment also is more likely to attract the broad-gauge minds we need to guide the company in these complex times. There is no doubt that art lends warmth to the environment and is evidence that the company is involved in the welfare of its employees (Sellner, 1982, 16).

With respect to how to foster entrepreneurial activity in large firms, the arts industry was the first to adopt an "intrepreneurial" structure (Macrae, 1982, 67-72)

If we are to get good problem-solving in our decentralized corporations, we must introduce a system that gives the decision to those who get results, not to the inoffensive. Such people will be willing to take moderate risks and will be more concerned with achieving results than gaining influence. These are the characteristics of the successful entrepreneur. What is needed in the large corporation is not more semi-independent departments run by hard-driving yes men, but something akin to free-market entrepreneurship within the corporate organizations (Pinchot, quoted in Macrae, 1982, 68).

The artist, by nature, is a risk-taking entrepreneur who does not readily submit to organizational goals.

In consequence, ... the artist functions as an independent entrepreneur ... or ... as a member of a very small firm which he can dominate or in which he can preserve the identity of his work. A few industries - the motion picture firms, television networks, the large advertising agencies - must, by their nature, associate artists with rather complex organization. All have a well-reported record of dissonance and conflict between the artists and the rest of the organization... Frequently the problem is solved by removing actors, actresses, scriptwriters, directors, composers, copywriters and creators of advertising commercials from the technostucture ... and reconstituting them in small independent companies. The large firm then confines itself to providing the appropriate facilities for producing and - more importantly - marketing, exhibiting or airing the product (Galbraith, 1973, 60).



## EDUCATION AND TRAINING

### Consumption Skills in the Future Economy

In its preliminary report the Commission suggests that the challenge with respect to education and training is how to attain high quality basic education, systematic life-long learning, skill training for specific jobs and more effective retraining. To the author, however, there is another equally important challenge - how to raise the consumption skills of Canadians.

A proxy for the emerging upscale Yuppie market (see above, "Trade and Industrial Development") is the number of Canadians with some post-secondary education. In 1977 approximately 3,355,000 members or 32% of the Canadian labour force had some post-secondary education. By 1985 this segment of the labour force will grow to 4,787,000 or 38%. By 2000 some 6,657,000 or 45% of the labour force will have at least some post-secondary education, i.e., the Yuppie market will double. Another Yuppie market indicator is participation rates in alternative leisure activities. Between 1977 and 1985 the adult population will grow at an average annual rate of 1.6%. Participation in fine arts activities will grow significantly faster: attendance at museums and art galleries at 2.6%; use of libraries at 2.4%; and attendance at live theatre at 2.1%. Attendance at sports events will increase only 1.3% a year, and TV viewing at 1.4% per year (Picot, 1980).

In both the United States and Canada higher quality consumer products tend to come from abroad, particularly from Europe. Why? Given that capital plant and equipment in North America is as good as that in Europe the answer is not superior European production technology. In fact, it results from a feedback between skilled consumption and production. The Canadian

... buyer of European imports benefits from the high standards which careful European shoppers' finicky demand imposes on their producers; he does not have to be a careful shopper himself. In other words, he can be what is known as a free rider, enjoying the benefits of other people's careful shopping without paying his share of the cost, in terms of time and effort, that careful and aggressive shopping involves. That explains why (Canadian) producers find it unprofitable to cater to his demand by trying to out-compete high-quality imports, despite the often exorbitant price they fetch. (Canadian) consumers seem willing to pay a high price, in terms of money, for the reputation of European imports; that is we pay cash to obtain high quality without having to pay for it in terms of careful shopping (Scitovsky, 1976, 178).

When the design advantage of European producers (and increasingly that of Japanese producers of consumer electronics) is combined with the wage advantage of Third World producers, then the Canadian producer is left with a narrowing mid-range market. This combination of design and wage disadvantages may explain the apparent "de-industrialization" of Canada. Improved productivity through robotics and other new technologies may lower costs of production, but only improved design will secure for Canadian producers part of the growing domestic and world Yuppie market.

But if Canadian producers are to enhance design then Canadian consumers must demand such qualities. This leads back to consumption skills education. Since introduction of universal education in the last century, production skills training has progressively crowded out education in the arts and humanities, the traditional source of consumption skills. This crowding out partially reflects the puritan and republican traditions of North America in contrast to the catholic and aristocratic traditions of Europe. It also reflects an initial need, in the 19th to mid-20th centuries, to develop repetitive industrial skills among a relatively uneducated, rural workforce. In the late 20th century this is no longer the case. The new production skills of the emerging economy emphasize non-repetitive, adaptive and judgemental capacities, more characteristic of traditional consumption skills than the industrial skills of the last century.

The need for consumption skills education extends beyond the requirements of the Yuppie marketplace to the mental and physical health needs and costs of an ageing population.

Another important - and tragic - example of our economy's failure to provide adequate stimulation to the unskilled consumer is the problem of the aged. When people retire they are suddenly deprived of the stimulus satisfaction their work has given them, and, naturally, they try to fall back on the other sources of stimulation accessible to them. If they are unskilled consumers, they soon find their sources of stimulation inadequate; the result is the heartrending spectacle of elderly people trying desperately to keep themselves busy and amused but not knowing how to do so. Boredom seems inescapable, and boredom is a great killer. That may well be part of the explanation of the (Canadian) male's relatively low life expectancy. (Canadian) women are better off in this regard, for they have housework and cooking to keep them occupied and alive.

The remedy is culture. We must acquire the consumption skills that will give us access to society's accumulated stock of past novelty and so enable us to supplement at will and almost without limit the currently available flow of novelty... Music, painting, literature, and history are the obvious examples (Scitovsky, 1976, 235).



## RESOURCES AND THE ENVIRONMENT

### Natural Rights of the Environment

In its preliminary report the Commission suggests the challenge with respect to resources and the environment is how to attain maximum benefits from resource development and enhanced environmental quality. While accepting the Commission's formulation, the author suggests an alternative choice.

... our present view of the natural world has no place for natural features and entities themselves. Physical entities that support life, such as air, water, and land, are conceived in a legal sense as if they had no existence apart from the human legal rights that have been attached to them. We could easily and legally destroy all vestiges of natural life without ever violating the constitutional provisions regarding the protection of property. Our present conception of property revolves around our use of it, not around its existence as an element of the universe in its own right. Nature has no rights of its own in our legal system. If our legal system reflects our view of reality, then we believe that we exist over and apart from the physical world (Deloria, 1979, 135).

At present society, through its laws, recognizes certain natural rights of the individual and extends these rights to abstract, collective entities like corporations, trusts and joint ventures. Similarly the definition of property has been extended to embrace abstractions such as "intellectual properties" including copyright, patents, registered industrial designs and trademarks (see below, "Looking Forward"). If these legal fictions were extended to the environment, i.e., the environment is like an individual with the legal right to protection of its property, then a number of difficult environmental problems associated with resource development could be more easily resolved.

Resource owners would be legally obliged to compensate the environment for economic activities, e.g., open pit coal mine owners would legally be required to restore the landscape. Similarly, downstream or air pollution including acid rain would, in and of itself, be an infringement of property rights, whether or not human beings as opposed to animal or plant life were affected. Such a regime would change the economic rules of the game and facilitate long-term social benefit maximization from resource development and enhance environmental quality, in contrast to short-term private benefit maximization and environmental degradation of today.

One significant question remains. Who should be the guardian of the environment able to act on its behalf, the state or individual citizen? The author's preference would be both.

## SOCIAL SUPPORT

### From Moral Hazard to Social Change Incentives

In its preliminary report the Commission suggests that the challenge facing the social support system is how to develop a new consensus. While accepting the Commission's formulation of the challenge, the author suggests an alternative philosophic base for this new consensus.

More sophisticated critics of the contemporary social support system have gone beyond traditional and simplistic Social Darwinian survival of the fittest. One argument in particular touches a crucial problem with which society must come to grips.

Moral hazard is the danger that a policy will encourage the behaviour - or promote the disaster - that it insures against... In most instances, a pressure is exerted on behalf of behaviour insured against and a penalty is inflicted on the behaviour that the insurer desires (Gilder, 1981, 108).

The philosophic base of the current social support system is derived from private sector insurance. When restricted to the private sector, moral hazard can be dealt with by the marketplace, i.e., if a company fails to restrain costs associated with moral hazard it goes out of business. Except in the most apocalyptic scenario this cannot occur in the public sector. But while financial bankruptcy is unlikely, moral bankruptcy is only too possible. Social assistance programs, intended to secure the life and health of the needy, have become the object of public cynicism. Recipients, instead of receiving respect from their fellow citizens, have become stigmatized and suspect.

A holder of property has his property protected by law; a person receiving welfare payments is not considered to have a right protected by law but is the recipient of a privilege bestowed by government, a gift, as it were, that he must demonstrate moral worth to receive (Deloria, 1979, 127).

The author suggests that a new philosophic base is required for the social support system. Rather than insurance against, what is required are incentives towards socially preferred behaviour and/or status. Such social change incentives are beginning to appear, e.g., all three political parties in the current election campaign have proposed that unemployment insurance be used for retraining. It is the author's belief that social change incentives will, sooner or later, become the base for a new consensus for the social support system, including technological change incentives (see above, "Productivity").



## INTERGOVERNMENTAL RELATIONS AND ECONOMIC UNION

### Hierarchy of Cities, Horizontal Planning and Development

In its preliminary report the Commission suggests that the challenge of intergovernmental relations and economic union is how to attain more harmonious relations between governments and a stronger economic union. While accepting the Commission's formulation of the challenge, the author suggests an alternative choice.

Canada is highly urbanized with nearly one-half of the population living in nine major Census Metropolitan Areas (CMAs). These CMAs fall into three distinct size groups. The first tier includes the three largest metropolitan areas, Toronto (pop. 2,988,947), Montreal (pop. 2,828,349) and Vancouver (pop. 1,268,183). The second tier includes Ottawa (pop. 717,978) and Edmonton (pop. 657,057). The third includes Calgary (pop. 592,095), Winnipeg (pop. 584,842), Quebec City (pop. 576,095) and Hamilton (pop. 542,095) (Statistics Canada, 1982). These CMAs, together with their satellite communities and rural hinterlands, spread out across the country forming a hierarchy of regional and national centres which collectively constitute Canadian civilization. Within this hierarchy a rational division of labour is both possible and necessary.

The vast majority of the nation's invested infrastructure exists in these major urban centres. However, their planning and development is grossly inefficient. Two extreme examples will demonstrate the inflationary pressures resulting from this inefficiency. The first concerns the gravity model of urban development, and the property tax imperatives of local government. Consider an urban centre, which at a given point in time, has a population of 250,000. According to the traditional gravity model the city will have a centre core of perhaps 15-storey buildings providing a core density required to hold the community together in a pattern of concentric circles of declining density (Doxiadis, 1966).

Ten or twenty years later the community grows to 500,000. The core density has been increased by raising core buildings to 25 or 30 storeys. This occurred not only in response to the gravity model, but also in response to the property tax incentives of local government, i.e., higher assessment for higher, bigger core buildings. But what are the social costs?

The 15-storey buildings in the old core had an additional functional life of perhaps 50 years, but were torn down. Five- and ten-storey buildings located just

outside the core were in turn torn down and replaced by 10- or 15-storey buildings. Similarly there was no incentive to maintain residential housing stock threatened by core expansion. It was allowed to deteriorate, thereby encouraging local government to permit urban redevelopment and higher density construction. Needless to say, core residential communities were disrupted with associated welfare and other costs.

The inflationary impact of premature depreciation of urban structures was not apparent in the real estate market. Narrow profit maximization led developers to the rational choice to replace "under-built" structures. The impact was not apparent to local government because, given property tax incentives, it was rationale. But an enormous, and functionally unnecessary demand was created for scarce building materials and labour with a resulting rise in wages and prices. There are alternatives to the gravity model of urban development, e.g., the linear model, which could reduce inflation and promote community development and stability (see Dioxiadis, 1966). Unfortunately, these alternatives face existing property tax incentives which effectively discourage their implementation and a gravity model of development which dominates contemporary urban planning.

The second example concerns the "vertical-functional" approach to current public policy at the local level. Functionally local government consists of various departments like transportation, water and sewers, health and welfare, etc. Each tends to be vertically linked with provincial and federal departments and agencies based on the fact that the federal government has the money, the provinces have the responsibility, and local governments have the problems. For budget maximization purposes local departments co-ordinate their actions, not horizontally with other local departments, but vertically with the grant and incentive systems of provincial and federal agencies (Olson, 1975).

At the extreme this can lead to a local roads department, in response to incentives from the province, to build a new arterial in year one. In year two the local water department responds to provincial incentives by tearing up the new arterial to install new storm sewers. In year three the local gas company tears up the road to expand its trunk lines in response to new provincial or federal energy programs. The social and economic costs of failing to institute horizontal planning and development at the local level are enormous, and unnecessary.



## NATIONAL INSTITUTIONS

### Future of Non-Geographic Constituencies

In its preliminary report the Commission suggests that the challenge of national institutions is how to attain more representative, responsive political institutions and more open and accountable bureaucracy. While accepting the Commission's formulation of the challenge, the author suggests an alternative choice.

Although we live in a democratic state it is not the same society as that of the Fathers of Confederation. Population mobility has combined with increasing societal division of labour to seriously erode the stability and relevance of the geographic constituency. Proportionate representation may eventually give formal recognition to the non-geographic nature of political parties, but other non-geographic constituencies will probably remain secondary in the formal political system. Beyond the self-regulating professions such as medicine and law, it is unlikely that a formal syndicalist model of democratic representation will be created or extended in Canada, even through Senate reform.

There remains, however, a need to enhance the legitimacy of various non-geographic, democratic constituencies, particularly labour. It is a fact of history that labour unions have been and are today considered illegitimate by many Canadians. This partially reflects the historical evolution of labour law.

The early labour law in Canada, as elsewhere, was assumed to be at the service of the employers and was called into service for various offenses; breaches of contract, trade union organization and rioting. Workers' combinations were widely treated as criminal offenses (Robin, 1966, 11).

The single most effective way to enhance the legitimacy of labour (and by extension other non-geographic constituencies) would be to introduce legislation requiring publicly supervised secret voting for the election of union officials, strikes and ratification of collective agreements. While union leaders may view such legislation as a threat, it is the author's belief that it would do more to enhance the legitimacy of the trade union movement in the hearts and minds of Canadians than any other measure. In the long term, such legislation would permit trade unions to more effectively realize their objectives of industrial democracy.

With respect to more open and accountable bureaucracy, in general, the most effective way is to reduce "rational apathy" on the part of the public. Rational apathy results when the costs of information are too high and the ability to

influence decision too low for it to be rational for the citizen to become informed or involved. If knowledge is power then the best defense against an arbitrary bureaucracy is an informed public. Therefore the critical requirement is to reduce the cost of information to the public.

There are at least three dimensions to information cost reduction. First, bureaux should be required to insure that the form and content of policy relevant information is relatively consistent through time, e.g., through trend data basis and policy performance indicators. This would permit citizens to invest in a learning curve at one point in time and rise easily along that curve through time.

Second, bureaux should be required to co-ordinate information horizontally and vertically. Thus the federal department of employment should relate its information vertically to provincial and local employment information sources. Horizontally, the department of employment should, for example, relate its information to the relevant department of industry information. Horizontal and vertical co-ordination of information would provide citizens with a context for comprehension.

Third, information should be accessible in both computer network and paper formats through public libraries and other decentralized institutions, free of charge. This pattern of accessibility should be the initial building block in development of a new public information infrastructure for the emerging economy.



## LOOKING FORWARD

### Towards the Post-Modern Economy

In looking forward the author sees the development of a post-modern economy that combines the best of the political and economic values and rights inherited from our collective past with the technologies of the future. This post-modern economy will, the author believes, evolve out of the quaternary sector (Chartrand, 1979) of the contemporary economy.

In Second World or socialist economies, the National Accounts record only the activities of primary and secondary industries, i.e., farming, fishing, forestry, mining and manufacturing. Unlike First World or market economies, socialist countries do not report activities of tertiary industries, e.g., services such as banking and finance. Increasingly, however, both First and Second world economies recognize, through special fiscal and tax policies as well as national planning objectives, the existence of a quaternary sector engaged in the production and consumption of abstract goods and services. Quaternary sector goods and services include scientific and technical inventiveness, excellence in the arts, quality of life, community development, national unity, natural rights of the environment and other abstract, but highly valued, aspects of contemporary life.

Quaternary commodities are highly valued by society but they cannot be marketed in the conventional way. Rather, they must be transformed through public mechanisms before value in exchange (Garnham, 1977) can be created, and thereby, free-riders excluded. In modern society, creative effort is transformed, and to a greater or lesser degree, protected from piracy through intellectual property legislation. In the natural sciences and engineering, legislation creates patents and registered industrial designs. In the arts, social sciences and humanities, legislation creates copyright and trade marks.

... it is the expansion of knowledge, skills, imagination, ideas and insights of working people that creates the margins from which physical capital is accumulated, leading to productive investments to further accumulation of capital (Ginzberg, Votja, 1981).

Quaternary goods and services are both intermediate inputs to primary, secondary and tertiary sector producers as well as final outputs. In external trade the importance of quaternary goods and services is measured by what is called "invisible exports". In the case of the United States

These "invisible exports", preponderately the yield from human capacity, particularly organizational and managerial capabilities, nearly offset the increased expenditure for petroleum imports that put the foreign-exchange account \$7 billion in the red (Ginsberg, Vojta, 1981).



In the case of Canada, the situation is dramatically different.

The trade imbalance in "other services", which measures the purchase of managerial and other professional inputs to Canadian governments, and corporations, is in relative terms as important a long-term characteristic of Canada's negative invisibles balance, as are interest and dividend payments (Britton, Gilmour, 1978, 30).

If Canada is to overcome this imbalance then one crucial element will be the creation of a new order of intellectual property rights. While existing rights have been rationalized as providing a reward for creativity, they have become the legal foundation for industrial organization in High Tech, High Cult and other industries, particularly among foreign firms.

A new order of pecuniary intellectual property rights are required to specifically reward the creative effort of the individual Canadian scientist, inventor and artist. Such rights should be established outside the existing system of international conventions to enable Canada to provide differential treatment for Canadians. Examples of these new rights include Public Lending Rights for authors whose works are borrowed from libraries; Exhibition Rights for artists whose works are publicly exhibited; Rights of Following Sales for visual artists to earn some return on the increased value of their works; and Performance Rights for actors, singers and dancers.

In addition tax exemption or other special treatment for income earned by individuals from all intellectual property rights is required. In Ireland, for example, all copyright income is exempt from income tax. The effect of such tax exemption would be to create a tax haven for creative individuals. The same principle could be extended to income from patents and other intellectual properties earned by an individual. If the ultimate economic resource is human creativity then through the introduction of an integrated regime of such new intellectual property rights and special tax treatment of income earned by individuals from such rights, Canada could develop the first post-modern economy, an economy of the imagination.



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